

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6551

BILL NUMBER: SB 334

NOTE PREPARED: Dec 21, 2009

BILL AMENDED:

SUBJECT: Income Tax Exemption for Veterans.

FIRST AUTHOR: Sen. Broden

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill phases in an increase of the military income tax deduction from \$5,000 to \$9,000. It lowers the minimum age requirement for an individual to deduct a military pension benefit from age 60 to age 55.

Effective Date: January 1, 2010 (retroactive).

Explanation of State Expenditures: The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to reflect both the increase in the maximum deduction amount and the lowering of the minimum age requirement for the deduction of military retirement and survivors benefits from 60 to 55. The Department's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Summary* - This bill would reduce Adjusted Gross Income (AGI) Tax liabilities of certain individuals who receive military service income, including retirement or survivor's benefits. The additional revenue loss due to the bill could potentially total \$2.4 M in FY 2011, \$5.0 M in FY 2012, and \$7.8 M in FY 2013. Thereafter, the revenue loss could increase by about 2.2% to 2.7% per year. All revenue from the AGI Tax on individuals is deposited in the state General Fund.

The bill makes the following two changes:

- (1) Extends the minimum age requirement for military retirement and survivors benefits to military retirees and survivors from age 60 to age 55 beginning in tax year 2010.
- (2) Increases the maximum deduction for military service income, including retirement and survivors

benefits, from \$5,000 to \$6,000 in tax year 2010, to \$7,500 in tax year 2011, and to \$9,00 in tax year 2012 and after.

Background Information - Current statute provides a deduction for military service income, including military retirement and survivors benefits. The maximum deduction is \$5,000, with a full deduction for active duty pay to National Guard and Reserve personnel who are mobilized. The deduction applies to military retirement income and survivors benefits received by a person who is 60 years old or older. In 2007, 39,361 taxpayers claimed deductions totaling \$78.5 M for eligible military income. The maximum deduction at that time was \$2,000. (Note: P.L. 144-2007 increased the maximum deduction from \$2,000 to \$5,000, and provided a full deduction for active duty pay to National Guard and Reserve personnel who are mobilized, effective beginning in tax year 2008.).

Because the estimates provided above are based upon average pension or survivors benefits, the actual revenue loss may be less than projected to the extent that some retirees or survivors receive less than the maximum deduction annually.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the increase in the maximum deduction amount and removal of the age requirement for the retirement and survivors deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

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